

**Testimony of
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Secretary of Commerce
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Chairman Davis, Ranking Member Waxman, and members of the Committee, thank you for the opportunity to appear before you today to discuss U.S. competitiveness, a vitally important topic for our workers, companies and the future of our economy. As President Bush said in his State of the Union address, the American economy is preeminent, but we cannot afford to be complacent. We have a choice in how to respond to the rise of new competitors like China and India. Some want to respond by retreating into isolationism. But I want to talk to you today about the path that the President is following – maintaining our leadership by competing with confidence.

The Competitiveness Imperative

The spread of economic freedom has brought many new participants into the global economy. According to the Heritage Foundation and Wall Street Journal Index of Economic Freedom, there are now 72 countries with economies that are considered free or mostly free, close to double the number of just 10 years ago. These nations are becoming increasingly interconnected as a result of advances in telecommunication networks, new trade agreements, integrated financial markets, and distributed supply chains.

The opportunities for U.S. firms and workers presented by the global economy are immense. Consider the fact that over 95 % of the world's population lives outside of

U.S. borders—all potential customers of U.S. firms. For example, as the President noted in his State of the Union address, one out of every five U.S. manufacturing jobs is related to global trade.

While this dynamic and interconnected world of our suppliers, customers, employers and competitors brings opportunity, it also requires that workers and firms be willing to change. Countries that resist change by erecting trade barriers, imposing burdensome regulations on product and labor markets or trying to pick and choose industry winners do so at their own risk. However, embracing change and focusing on competitiveness is the path to a higher standard of living in this new world. The United States is on this path and it has yielded results. In 2005, our per capita GDP of \$42,000 is among the highest in the world and our January 2006 unemployment rate of 4.7% is among the lowest of all G7 countries.

An economy's productivity is the best measure for whether it is competitive and positioned to maintain a high standard of living. Productivity measures the efficiency with which goods and services are produced. And that, in turn, determines the real wages and standard of living of those workers. Over the past five years, productivity in the non-farm business sector has grown 3.3% annually – one of the fastest five year periods of growth in almost 40 years. So, on this score, the United States is well positioned to maintain its high standard of living.

But the rest of the world is not standing still and neither can we. In order to remain the most competitive economy in the world, we must focus on three areas of policy. First, we must have the capacity to continually innovate and stay ahead of the competition. Second, we must have a business environment in which entrepreneurs can

deliver new products and services. And, third, we must have an open and level global playing field on which our products and services can be sold. President Bush and the Department of Commerce are committed to addressing each of these areas.

Innovation Capacity

In his State of the Union Address, President Bush announced the American Competitiveness Initiative (ACI), which provides an agenda for maintaining our leadership in two areas that significantly contribute to a nation's innovation capacity: intellectual and human capital.

The centerpiece of the ACI is the President's strong commitment to double over 10 years investment in the key Federal agencies that support basic research programs in the physical sciences – the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology (NIST).

NIST has long been a center for high-impact basic research, as evidenced by the three Nobel Prizes its scientists have been awarded. NIST research has led to innovations that we use every day, from the high-density magnetic storage technology which makes devices such as computer hard drives and mp3 players so compact, to protective body armor and diagnostic screening for cancer patients. The ACI calls for \$535 million for NIST labs and research construction accounts in 2007, a 24% increase over 2006 (after omitting earmarks). This will help fund the work of 3,900 scientists and engineers from government, industry and universities – an increase of 600 researchers over FY 2006. Their work in areas including nanotechnology, hydrogen fuel systems, and quantum

information will lead to the innovations of tomorrow, such as much more efficient batteries, and smaller computer chips to power our digital devices, as well as fuel cells to power pollution-free cars and unbreakable codes to protect electronic financial transactions and video transmissions.

It is also critical to focus on how these dollars are spent. The most successful research is based on careful planning and merit-based peer review rather than by funding a specific organization or project. So, to maximize the impact of ACI research, we encourage the Congress to resist earmarking scientific research funding.

We must also focus on the two-thirds of all research funding that is invested by the private sector in addition to the one-third of research funding that comes from the Federal Government. This is why it is critical that Congress makes the R&D tax credit permanent. Making the credit permanent, which is estimated to cost \$86 billion over ten years, would enable companies to have certainty in their tax planning and be bold in their R&D investment strategy. As part of the ACI, the President is also committed to working with Congress to modernize the credit to make it even more effective and efficient at encouraging private sector innovation.

The second major component of the ACI is its call for investment in human capital. As the President noted in his State of the Union address, our greatest advantage has always been our educated, hardworking and ambitious people. Maintaining our leadership in human creativity and talent begins with encouraging children to take more rigorous math and science courses. The ACI proposes \$380 million in new Federal support to improve the quality of math, science, and technological education in our K-12 schools and engage every child in rigorous courses that teach important analytical,

technical, and problem-solving skills. The ACI will expand access of low-income students to Advanced Placement/International Baccalaureate (AP/IB) coursework by training 70,000 additional teachers over five years to lead AP/IB math and science courses, and encourage up to 30,000 math and science professionals over eight years to become adjunct high school teachers. Building on the successes of the No Child Left Behind Act, the ACI will raise student achievement in math and science through testing and accountability.

As part of the ACI, the President's FY07 Budget introduces Career Advancement Accounts (CAA). CAAs will be self-managed accounts of up to \$3,000 that workers and people looking for work can use to obtain education and training. The CAA initiative will offer training opportunities to about 800,000 workers annually, more than tripling the number trained under the current system, and give America's workers the resources they need to increase their skills and compete for the jobs of the 21st century economy.

Maintaining our leadership in human capital also requires that we continue to attract and retain the best and the brightest high-skilled workers from around the world by reforming America's immigration system, while protecting our borders. Much of America's innovation – and many of our jobs – come from companies started by Americans who immigrated to our country.

In the increasingly competitive international marketplace, it is vital that we continue to make America a hospitable place for entrepreneurs and encourage highly skilled specialists from around the world to build their businesses. Just as corporations compete to recruit the best possible workers, and universities compete to recruit the best possible students, our country will increasingly compete with other countries to recruit

and retain the best most highly skilled minds. This is a zero-sum game. People will start their innovative businesses in the United States; or in the countries we compete with. Recruiting the world's most talented people to the United States will increase our entrepreneurship, our international competitiveness and – according to every major study of this issue – will net many high-paying jobs for all Americans.

A Competitive Business Environment

A competitive business environment requires that we remove the barriers that American workers and firms confront in competing with the rest of the world. A recent study conducted by the National Association of Manufacturers concluded that external overhead costs from taxes, health and pension benefits, tort litigation, regulation and rising energy prices add approximately 22 percent to U.S. manufacturers' unit labor costs (nearly \$5 per hour worked) relative to their major foreign competitors. The Office of Management and Budget (OMB) estimates that since 1981, major regulations reviewed by OMB have added at least \$117 billion to the overall yearly costs of regulation on the U.S. economy. The Department of Health and Human Services (HHS) just reported that healthcare costs have risen to 16% of GDP. And since 2003, the price of petroleum products used by the industrial sector rose, on average, by 60%, while the price of natural gas rose by 35% in the same time period.

In his State of the Union address, the President called for a number of initiatives to reduce these competitive barriers. He noted that the tax relief passed by Congress has left \$880 billion in the hands of American workers, investors and small businesses, but that unless Congress makes it permanent, we will face a massive and anti-competitive tax

increase. The President's agenda for making health care more affordable includes the strengthening of Health Savings Accounts to provide greater choice and flexibility in how workers and employers spend their health care dollars, as well as reforming the medical liability system to provide access to the courts while reducing frivolous lawsuits and excessive jury awards. His energy agenda calls for breaking our addiction to foreign oil through the use of technology. To accomplish this, the President announced the Advanced Energy Initiative to provide a 22-percent increase in clean energy research.

The Department of Commerce's role begins by providing the data and analysis to better understand the changes underway in the global economy and what we need to do to maintain our leadership position. Our Economics and Statistics Administration, home to the Bureau of Economic Analysis, and the Census Bureau, provides critical insight into the macro-level trends in our economy, such as drivers of GDP growth. However, competitiveness is in large part related to what is happening at the more micro level, i.e., the firm, industry and regional level—and our data and analysis are helping us better understand changes in the competitive forces at work at these levels. In addition to improving our understanding at this finer level of detail, we also need to better understand the impact that variables such as intellectual and human capital, as well as business costs, have on competitiveness. This is especially true as services become an ever more important part of our economy and innovations increasingly come from new processes and ways of organizing.

At the Department of Commerce we are focused on understanding the competitive burdens faced by U.S. businesses and identifying ways to remove these burdens. The Office of Industry Analysis within the International Trade Administration's

Manufacturing and Services unit (MAS) was called for by the Department's "Manufacturing in America" report to ensure that U.S. industry perspectives are appropriately represented in interagency debates on policies affecting competitiveness. As you know, Federal agencies are required to conduct economic impact assessments when promulgating new regulations. However, the way that regulations impact U.S. firms is changing. When an industry's market is purely domestic, regulations are felt universally. But, when the competition is global, the industry may have to shoulder burdens imposed by new regulations that their global competitors do not face. The Office of Industry Analysis is making investments in data and analytical capabilities to help Federal rulemaking agencies consider the impact of regulation on global competitiveness and has begun to work with Federal rulemaking agencies to ensure that these implications are recognized.

In addition to establishing the Office of Industry Analysis, MAS has successfully implemented 33 of the 57 recommendations made by the Department's "Manufacturing in America" report, including seeking private sector advice about manufacturing competitiveness, identifying and prioritizing policies that have the most impact on competitiveness, and helping OMB to assess and choose 76 priority manufacturing regulatory reforms identified in their 2004 public call for manufacturing reform nominations, coordinating policy issues and structural costs affecting the manufacturing sector through the Interagency Working Group on Manufacturing, and implementing our Standards Initiative to reduce standards-related trade barriers.

Another critical component of a competitive business environment is a sound infrastructure. Broadband technologies are the roads and railways of the 21st century,

generating the next wave of economic expansion. Just as transport systems opened up new economic horizons in the last century, advanced telecommunications networks will pave the way for productivity gains across global economies in the new century.

President Bush established a national goal of universal, affordable broadband access for all Americans by 2007. We are making strong progress towards this goal and the number of broadband lines has grown from 9.6 million when President Bush took office to well over 35 million. However, more needs to be done. Working with the FCC, the Department of Commerce has increased the amount of spectrum available for wireless broadband services such as 3rd Generation mobile services, Wi-Fi and WiMax. In addition, President Bush has supported market-based policies that are resulting in the required deployment of advanced high-speed fiber optic lines deeper and deeper into American neighborhoods. With each of these initiatives, we radically improve the competitive environment for broadband services. By developing the most competitive broadband marketplace in the world, American consumers will have the most affordable and innovative broadband services in the world.

The National Oceanic and Atmospheric Administration (NOAA) is also making critical contributions to our business infrastructure by providing weather information that helps reduce the high uncertainty and variability of environmental conditions that have an impact on our energy grids, our transportation systems, and the long-term business planning of American companies. In addition, 61% of U.S. trade moves through our ports and the sea. Land- and satellite-based observations collected by NOAA satellites help enable efficient and safe routing of resources through these ports.

A strong intellectual property system and effective enforcement of intellectual property rights are critical components of a competitive business environment. This is especially true in our IP-based economy. According to a recent study, 75 percent of the value of publicly traded U.S. companies—some \$5 trillion—comes from “intangible” assets such as brands, copyrights, and patents. Entrepreneurs, firms and investors would not commit substantial resources to research, development and marketing of new technology if they were not assured of receiving and maintaining adequate patent protections.

The U.S. Patent and Trademark Office (USPTO) received over 400,000 patent applications last year. Applications have increased at a steady pace every year and that is a good sign that innovation is alive and well in America. This volume, along with the consistent growth rate and the increasing complexity of the applications, present significant operational challenges.

The USPTO has worked hard to improve quality and more efficiently process applications. In fiscal 2005, the USPTO hired 978 new patent examiners, and plans to hire 1,000 new examiners in 2006 and 2007. They have over 4,000 patent examiners today and plan to have 5,235 on board by the end of fiscal 2007. And, the President's budget for fiscal 2007 gives the USPTO full access to all the fee revenue it receives. The USPTO needs these resources to continue its hiring of new patent examiners and implement its 21st Century Strategic plan to improve patent quality and decrease pendency.

An efficient patent system is an important first step, but we must be serious about enforcement of intellectual property rights to protect their enormous economic value and

provide an incentive for entrepreneurs to innovate. The Administration is pursuing a comprehensive plan for intellectual property rights (IPR) enforcement. This plan includes the Strategy Targeting Organized Piracy (STOP) Initiative, launched by the Administration in October 2004, which brings together the Departments of Commerce, Homeland Security, Justice and State, as well as the Office of the U.S. Trade Representative to provide the foundation and focus for our efforts in the global fight against counterfeiting and piracy. In addition, we are working with the Chinese through the Joint Committee on Commerce and Trade's (JCCT's) Intellectual Property (IP) Working Group to help China take meaningful steps toward significantly improving IPR protection and enforcement. Through the JCCT, China has committed to increased criminal prosecution, enhanced cooperation with U.S. law enforcement and joining the World Intellectual Property Organization (WIPO) Internet Treaties. An International IPR Enforcement Coordinator has been established to lead the National Intellectual Property Law Enforcement Coordination Council (NIPLECC) and ensure an effective and efficient protection of intellectual property in the United States and throughout the world.

We must educate other governments about intellectual property rights. So far, the U.S. Government has conducted over 400 IPR technical assistance and enforcement projects in the United States and around the world, including the creation of the Global IP Academy at the USPTO. Additionally, we have initiated an IP experts program that will soon have an expanded presence in China and a presence in Russia, India, Brazil and elsewhere. The IP experts program will enhance our ability to work with local government officials to improve IP laws and enforcement procedures in addition to

assisting U.S. businesses to better understand the challenges of protecting and enforcing their IPR.

We must also effectively balance our economic and national security interests in the trade of sensitive high technology products. The United States is the world leader in the production of many high-technology products that are so sensitive that their export must be controlled to facilitate their flow to legitimate end-users while keeping them out of the hands of those who would do us harm. Examples of such products range from computers and microprocessors to encryption equipment to sophisticated machine tools. However, the United States often is not the sole producer of these items. Producers in Europe, Asia, and elsewhere are also eager to capture export markets for these sensitive items. The Department of Commerce is working to ensure that these other producers are subject to the same rules, controls, and restrictions as American firms, to ensure that the U.S. producers are not disadvantaged by export controls and that exports from these non-American producers do not threaten U.S. national security. The Department of Commerce is also taking active steps in a number of key industries such as night vision, composite materials, and semiconductors to ensure export controls are carefully targeted to meet our overriding national security needs without denying our companies legitimate markets.

While advances in communication technology and transportation have made the world a smaller place, location is very often still a critical determinant of a competitive business environment. Professor Michael Porter of Harvard Business School has identified the fact that the development and commercialization of new technologies takes place disproportionately in what he calls “clusters,” or “geographic concentrations of

interconnected companies and institutions in a particular field.” Prominent examples nearby include the telecommunications cluster in Northern Virginia or the biotechnology cluster in the Montgomery County, Maryland area. Regions and communities can find significant competitive advantage by identifying and then aligning research, education, infrastructure, and private sector activities around fields in which they have unique strengths.

The President’s 2007 budget calls for a \$47 million increase in Commerce’s Economic Development Administration’s (EDA’s) budget so that it can contribute to the Nation’s competitiveness by focusing on regional cluster development strategies, innovation and entrepreneurship. EDA’s successes with this approach to date includes a \$1 million investment in the Piedmont Triad Research Park in North Carolina, which is building a leading-edge biotechnology business around science derived from the region’s older tobacco business. This investment is expected to create 178 high-skill, high-wage jobs and generate \$87 million in private investment.

Open and Level Global Playing Field

Finally, an open and level global playing field is critical to the future success of American firms and workers. This Administration believes that America’s businesses, workers and farmers can successfully compete against anyone in any market, so long as we have an equal footing.

The Bush Administration’s trade agenda seeks to capitalize on the opportunities created by trade liberalization and the Commerce Department contributes in two key ways. First, we are working to open new markets and eliminate barriers to U.S. products

and services through trade negotiations. From bilateral meetings, to Free Trade Agreements and the Doha Round, we are creating new opportunities and expanding markets for American businesses and workers.

Second, we are focused on enforcing antidumping and countervailing duty laws that protect U.S. businesses and workers from unfair trade practices. We are currently administering 323 antidumping and countervailing duty orders, 58 of which are on products from China. These laws foster the competitiveness of the American economy by ensuring that U.S. and foreign products compete on factors such as cost efficiency, quality, customer service and innovation, rather than on whether the foreign producer benefits from subsidies.

A Confident Future

By working together on this bold agenda, we can ensure that American workers and firms continue to lead the world. I urge you to support the American Competitiveness Initiative and the President's broader efforts to confront the global economy with confidence.

Conclusion

Mr. Chairman, thank you again for the opportunity to appear before you today. This concludes my statement. I would be pleased to answer any questions you may have.